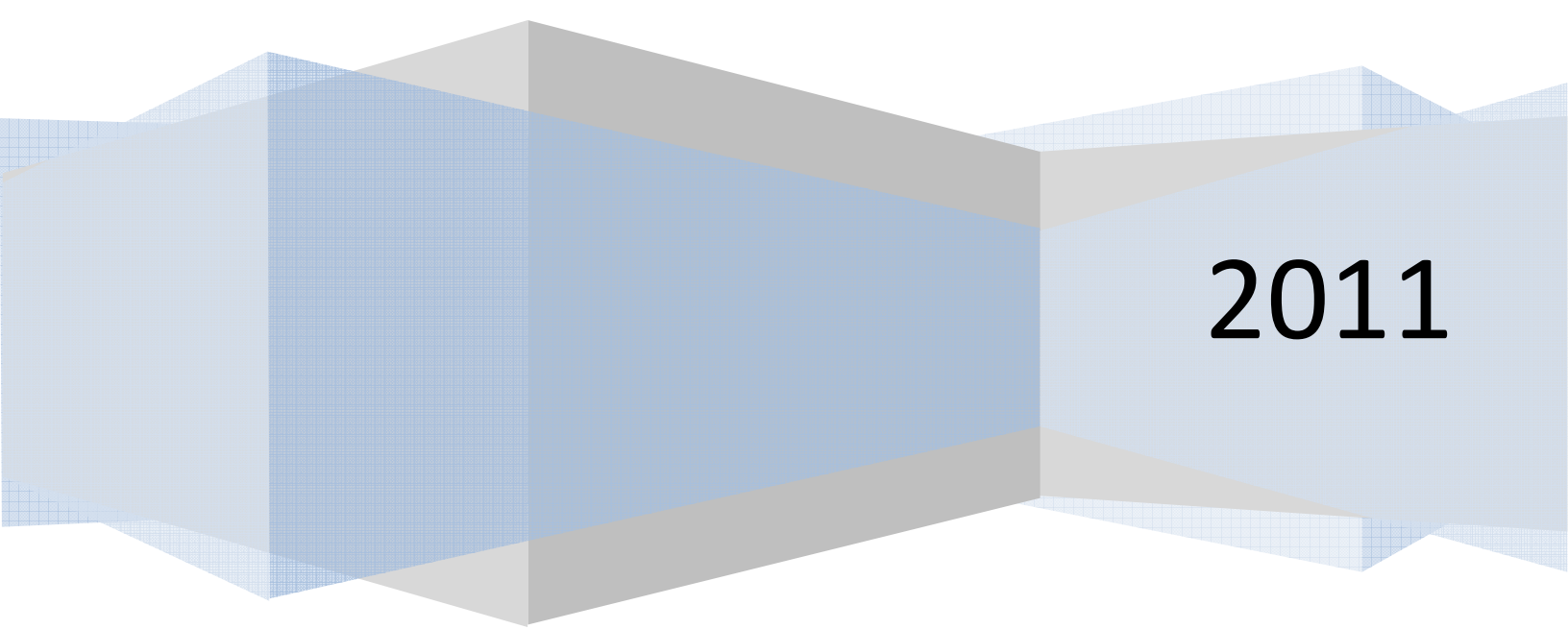


Netz Capital Advisors LLP

A Basic Guide to Owning and and Financing Luxury Private Jet and Helicopter in India

A White Paper By Atul Khekade & Ritesh Kakkad



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About Netz Capital Advisors LLP

Netz Capital Advisors LLP advises companies in industries such as infrastructure, Aviation, real estate, manufacturing and others in arranging Finance for business expansion through Banks, NBFCs, Private Equity Funds and Investment Trusts in India and globally. Netz Capital Advisors has presence in USA, UK, India and Singapore. Netz Capital has advised transaction in excess of \$200 million and currently has mandates for \$1 billion + in Financing.

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1. Introduction

India's real growth depends on the development of mid tier cities and businessmen located there. Businessmen located in these cities are firming up their plans to get their own private jets and helicopters to get better connectivity to business hubs and metro cities from their mid-tier cities. General Aviation industry in India is under rapid growth and it is estimated that India will have over 2000 private jets and helicopters in the next five years valued at over \$5 billion US Dollars. Netz Capital has successfully advised businesses based in US, UK, Europe, South America and India in getting the right Financing for their aircrafts. In India, the success of private jet and helicopter industry lies in having the right financing system in place for aircrafts categorized as Mobile Equipments in the Banking Industry.

Today, you can walk into any Toyota or Audi Showroom and buy a car that is worth Rs. 10 lacs or Rs. 1 crore by paying only a small upfront price. The Bank mini-outlet based inside the showroom itself can take care of your Loan and Financing so that you pay for the cost of vehicle (Asset) over the period of time.

Private Jet and Helicopter however does not come with this facility. In India, Aircrafts or ships are not categorized as assets. This makes it particularly interesting to set up a leasing and Financing Industry around Private Jets and helicopters considering India's Domestic Banking policies and International Financing Structures.

This White Paper by Netz Capital Advisors with an input from Airnetz.com is written to help Businesses understand how they can own a Private Jet or a Helicopter with ease, grow their business, save time and have flexibility to go anywhere anytime by staying in the same mid tier City.

2. Before Aircraft Acquisition

a. Aircraft Buyer's Check List:

Choosing an Aircraft that suits your Requirement

Before buying Private aircraft or helicopter, Customer should look at Personal or Business utility based on current available nearest airport, Airstrip size, Local landing point or issue related quick permission for landing and take-off. Customer should keep clear focus on whether the usage of aircraft is personal where one saves time. If the customer is buying to rent to other individual/corporate then He should also look at local market and best demanding aircraft or helicopter to get most money out of it. Alternatively, Customer can Charter different type of Machines to have a feel of each aircraft before purchasing for own use. Business Charter Company like Airnetz.com can able to help you to get various business charters for short or long trip.

Determine your budget for Plane

Before Buying Aircraft one should not only look at aircraft price but also the cost of operation, local duty, Insurance and cost of regular Maintenance.

Get Pre-Qualified for Aircraft Financing

There are many aircraft lenders or banks that can pre-approve your loan. Once you have the pre-approval, you are under no obligation to use the loan. It is always advisable to get your loan pre-approved because many Aircrafts are not in favorable list for financing by Financiers.

More detail on aircraft Financing in topic 4

Always look for Distressed Aircraft Buying Opportunities to Start with

For past 10years general aviation has enjoyed robust growth, so used aircraft inventories have dramatically increased. So there are distressed assets opportunities too. So first, always look for distressed Plane opportunities. Try to get Distressed Deal in reputed Aircraft brand.

b. Basic Category of Aircrafts

HELICOPTERS	Use	Example
<i>Single Engine</i>	<i>Mainly Suitable for Short Distance Flying to Any Location without an Airport</i>	<i>Bell 407, Augusta 119</i>
<i>Twin Engine</i>	<i>Suitable for Long Distance Flying to Any Location without an Airport</i>	<i>Bell 412, Augusta 109, Eurocopter</i>
TURBO PROP AIRCRAFTS	<i>Short Distance and Economical Flying with Shorter Runways</i>	<i>Beech Craft C90 Beech Craft B200 Beech Craft 1900D</i>
<i>Jets (fix wing)</i>		
<i>Very Light Jets</i>	<i>Distance and Economical Flying with Speed with Shorter Runways</i>	<i>Phenom 100, Cessna Citation Mustang</i>
<i>Light Jets</i>		<i>Cessna Citation I, Phenom 300, Hawker 400XP</i>
<i>Midsized Jets</i>	<i>Long Distance and International Flying</i>	<i>Cessna Citation XL, Hawker 800 XP, Gulfstream 200</i>
<i>Large Jets</i>	<i>Long Distance and International Flying with Extra Comfort and more passengers</i>	<i>Gulfstream G450, Gulfstream G550, Falcon 900 EX</i>
<i>Heavy Jets</i>	<i>Long Distance and International Flying with Extra Comfort and Features such as Bedroom</i>	<i>Boeing Business Jet, Airbus Business Jet, Embraer Lineage</i>

*** Many other aircraft Brands are Available in the market but it is always advisable to purchase well tested Standard Aircraft model to avail easy finance, easy approval with local authorities and get Technical personnel.

c. Choosing Financier's Favorite

This point is the most important yet overlooked by maximum aircraft buyers. Financiers have their internal rating for aircrafts which is primarily associated with its residual value after certain years. Aircraft is a luxury and it is a high maintenance as well as rapidly depreciating asset. Most of the aircraft buyers overlook this point and go after aircrafts which are rated very low by Financiers. Then they find it difficult to arrange financing for such aircrafts.

Always go for the aircraft which are highly rated by Financiers. It will not only help you with getting maximum financing for the aircraft, but it will help you get a very good valuation for your aircraft when you try to re-finance or sell it after your end of term either with Financier or end of your operating term.

3. Category of Aircraft Ownership in India: Non-Schedule Operator's Permit (NSOP) against Private Ownership

When you import an aircraft, its different than owning a car. The aircraft has strict guidelines and checks by Ministry of Civil Aviation and Director General of Civil Aviation for its owner. The owner has to maintain safety and airworthiness and also give the aircraft in the hands of very good pilots. In India, either you can avail Aircraft under Private ownership or under Non-Schedule Operators Permit (NSOP). Under Private ownership, Aircraft owner use aircraft for Personal use while under NSOP, Company or individual buying Aircraft for Commercial use. Both this category has different Import Duty Structure in India.

4. Understanding Aircraft Financing in India

a. RBI Guidelines

For those who think Aircraft is an asset in India, please be informed that **"it is not an asset"**. As Per the RBI Guidelines, Aircrafts or ships do not qualify for asset category in India. The basic reason being, India does not have many aircrafts and one can not trade them as assets. This clause makes aircraft financing in India particularly difficult.

b. Sources of Finance: Domestic Vs. International

Clients interested to Finance their aircraft can get their Finance arranged from Domestic or International Funding sources such as Banks, Private Equity Funds or NBFCs. Each Financier has own set of rule to fund aircraft.

- **Indian Domestic Banks Policy:**

Domestic Banks in India understand Aircraft as Equipment and some very specific banks provide up to 90% financing for Loan to Value in terms of Aircrafts. However, due to the Reserve Bank of India Policy, Banks will need a significant asset based as collateral to approve such financing in addition to Personal or/and Corporate Guarantees too.

A Detailed set of Documents is to be submitted to the bank including No Objection Certificate from Both Ministry of Civil Aviation and Director General of Civil Aviation to qualify for any Bank loan for your aircraft.

Domestic Banks can also provide up to 90% Finance using Buyers Credit Foreign Currency Loans product to the Indian Business.

- **International Bank's Policy for India:**

Foreign Banks can provide Dollar or Euro Loans for clients in India. The base rate for these loans is LIBOR (London Inter bank Rate). Due to the hurdles in understanding Aircrafts in India as assets, as per RBI policy and many other

emerging countries, Cape town Convention was held in the year 2004 that has made owning an aircraft in India significantly easier.

With the Cape Town Convention in Place, Foreign Banks can offer a suitable lease structure for ownership of Aircraft in India. These leases primarily fall in 2 categories, Operating Lease and A Finance Lease.

i. Operating Leases Vs Finance Lease:

Operating Lease:

Operating Leases are most flexible which allow Businesses in India to operate an aircraft without any Reserve Bank of India Approval. The Authorized Dealer Banks themselves authorize permissions and process lease payments in an Operating Lease Structure. Under Operating Lease, the ownership of Aircraft remains with it's Lessee while the Lessor can operate the aircraft by regularly maintaining and operating it as Per Director General of Civil Aviation India Guidelines.

Operating Leases from Ireland are the most favorite since the International Registry of Mobile Equipments (Aircrafts) is also based in Ireland and Ireland has certain tax friendly structure.

Up to 100% Operating Lease structure can be enjoyed by Businesses for a Category I aircraft. Category II and III aircrafts fetch 75%-90% financing for an Operating Lease.

Finance Lease:

Finance leases allow Businesses to Claim the ownership of an Aircraft by structuring leases with a fully Amortizing structure or partly amortizing structure with an option to purchase it at the end of lease term. Structuring the lease as a Finance Lease allows clients to take benefit of Asset Depreciation and claim it on the Balance Sheet.

All Finance Lease structures need Reserve Bank Of India Approval for External Commercial Borrowing which can take 3-4 Weeks. RBI Application for Finance Lease needs details of both Lender and Borrower.

5. Customs Duty and With Holding taxes

Private Category Customer's duty of 18-26% and Non-schedule Category Duty of up to 6% of the aircraft value is to be paid to the Customs department for getting a No Objection Certificate. And After 2008, all outgoing lease payments to non-Indian Banks have With-Holding tax applicable on it. With holding taxes can amount to 10-20% of the Lease Payments.

6. Aircraft Maintenance and Management

Director General of Civil Aviation has strict guidelines on aircraft maintenance, airworthiness and insurance. Aircraft Maintenance needs to be outsourced to DGCA certified Maintenance Repair and Overhaul (MRO) agency.

a. Parking Space

Aircraft buyer needs to make sure that he gets a parking space before bringing in the aircraft. No Objection Certificate for Parking space has to be submitted to the Director General of Civil Aviation before bringing in the aircraft.

b. Pilots

If you are buying an aircraft, you need to employ Full Time Pilots. There are agencies which provide well experienced Pilots and First officers on contractual basis. Certify Pilot is must to fly specific Aircraft.

c. Cabin Crew and Management staff

Cabin crew might or might not be required. It is totally the aircraft operator's choice. There are agencies which provide well experienced Cabin Crew attendants on Contractual basis. Managing the aircraft might also need other staff for Ground Handling, Managing co-ordination with Pilots and ensuring customer service quality. There are now specialized agencies available that can also take care of Aircraft Management.

7. Monetizing from Charters

If your aircraft is falling under Non-Schedule Operating Permit Category, it is required to be listed in Director General of Civil Aviation Database for the same and it has to be made available to charter inquiries when other businesses need it.

Final Note:

Owning an aircraft is an exciting and joyful experience. Its useful Business tool which gives flexibility and optimum level of time management. So one must follow correct acquisition process and also take guidance from industry expert to choose an aircraft that will bring you years of usefulness, happiness and predictability.



Contact Information:

Mr.Anil Yadav

President-Finance

Netz Capital Advisors LLP

Email: anil at netzcapital dot com

Phone : +91 932484716 /91-22-28631151

Web : <http://www.netzcapital.com>

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